

# **State of Alaska FY2006 Governor's Operating Budget**

## **Department of Natural Resources Agriculture Revolving Loan Program Administration Component Budget Summary**

## Component: Agriculture Revolving Loan Program Administration

### Contribution to Department's Mission

The Division of Agriculture, and Board of Agriculture and Conservation work to promote and encourage development of an agriculture industry in the state.

### Core Services

The Board of Agriculture and Conservation (BAC) administers the Agricultural Revolving Loan Fund (ARLF) through the Director of Agriculture. The ARLF promotes agricultural development through its agricultural loan programs. The ARLF agricultural assets are managed to encourage privatization and promote economically viable development of agricultural industries.

The ARLF provides direct, moderate interest rate loans to qualified borrowers and assists the agricultural community in expanding production of Alaska grown products. Fund resources are managed to ensure sustained availability of financing for future agricultural development and expansion in Alaska.

The ARLF provides various types of loans, including farm development, chattel, operating, irrigation, product processing and land clearing. It also provides contract financing for the purchase of ARLF disposal assets.

ARLF Staff works by processing new loan application/modification requests; closing loans/modifications; servicing loans/leases; servicing account delinquencies, collections, defaults and facilitating settlements; providing asset management for real properties, livestock and equipment; providing inspections and protection of ARLF collateral; and responding to requests by the public, legislature and state agencies.

- Finance new farms that are in private ownership as a result of our agricultural land sale activity. This results in additional acres returned to production and generates interest income revenues for the fund.
- Service the ARLF \$27.0 million portfolio with a clientele of 90 and 126 accounts.
- Manage 8 asset properties until disposal by sale or lease.
- Process new loan applications with an expected \$2.5 million in annual loan activity.
- Service loans, contracts and leases.
- Maintain the present low percentage of loan delinquencies.
- Minimize loss through aggressive collection action on an annual average of 6 cases involving delinquent borrowers by coordination between the Director, the BAC and the Attorney General's Office.
- Attend agricultural functions and forums with other industry representatives.
- Facilitate a minimum of eight BAC meetings for a seven-member board.
- Provide oversight of the Matanuska Maid Creamery and Mt. McKinley Meats operations to protect the interest of Alaska milk and meat producers. These facilities play a major role in the survival of the livestock industry in Alaska and operate with a business orientation.
- Research Alaska dairy industry development plan in relation to Matanuska Maid facilities.
- Develop plan for privatization of Mt. McKinley Meat and Sausage.

End Results	Strategies to Achieve Results
<p><b>A: Increase the amount of funds loaned to generate additional income.</b></p> <p><u>Target #1:</u> ARLF loan to equity ratio.</p> <p><u>Measure #1:</u> The loan to equity ratio in the Agricultural Revolving Loan Fund.</p>	<p><b>A1: Make agricultural loans at the direction of the BAC.</b></p> <p><u>Target #1:</u> All loan requests reviewed and submitted to BAC on a timely basis.</p> <p><u>Measure #1:</u> Average days required to adjudicate loan request.</p>

**A2: Timely disposal of ARLF Assets obtained through foreclosure.**

Target #1: Return assets to private sector on a timely basis.

Measure #1: Length of time to sell or lease foreclosed assets.

**Major Activities to Advance Strategies**

- Process new loan applications.
- Process loan modification requests.
- Inspect and evaluate collateral.
- Close loan/modification requests.
- Service loans, contracts, leases, accounts.
- Manage default accounts.
- Recover foreclosed/repossessed collateral.
- Facilitate settlements.
- Provide protection of ARLF assets.
- Respond to informational requests.
- Provide asset management.
- Dispose of foreclosed/repossessed assets.

**FY2006 Resources Allocated to Achieve Results**

**FY2006 Component Budget: \$2,526,100**

**Personnel:**

Full time	7
Part time	0
<b>Total</b>	<b>7</b>

**Performance Measure Detail****A: Result - Increase the amount of funds loaned to generate additional income.**

**Target #1:** ARLF loan to equity ratio.

**Measure #1:** The loan to equity ratio in the Agricultural Revolving Loan Fund.

**Loan to Equity Ratio**

Year	YTD
2000	28.90%
2001	27.95%
2002	27.70%
2003	46.39%
2004	47.38%

**Analysis of results and challenges:** The Board of Agriculture and Conservation has expressed interest in increasing the amount of funds loaned to generate additional income for the fund. Concerns for cash flow will limit the number of loans that can be issued.

**A1: Strategy - Make agricultural loans at the direction of the BAC.**

**Target #1:** All loan requests reviewed and submitted to BAC on a timely basis.

**Measure #1:** Average days required to adjudicate loan request.

**A2: Strategy - Timely disposal of ARLF Assets obtained through foreclosure.**

**Target #1:** Return assets to private sector on a timely basis.

**Measure #1:** Length of time to sell or lease foreclosed assets.

## Key Component Challenges

ARLF provides an operating subsidy for program-wide Division of Agriculture expenditures. This results in an ongoing erosion of ARLF funds and jeopardizes the solvency of the Fund. New cash-flow projections project a solvency issue as soon as 2006.

ARLF Properties and plans for disposal:

**Mt. McKinley Meat Plant,** Public hearings have been held to receive public comments regarding future operations of the plant. Division staff developed business plan options for consideration by the Board of Agriculture and Conservation. The BAC indicated that continued operation of the plant is critical to the agriculture industry. DNR has operated the plant beginning December 2003 with an eye on transferring the Plant to a Coop by 2006.

**Matanuska Maid,** operating as the Creamery Corporation, provides a critical market for Alaskan dairy producers. The BAC acts as the shareholder and is not actively pursuing disposal of the asset. Matanuska Maid creates jobs and revenue in the Alaska economy by marketing Alaska products. Using out-of-state raw milk to supplement the local product and a diverse market line, Matanuska Maid makes it possible for state producers to compete with industries in the Lower 48. This plant is critical to the survival of 9 dairy farm businesses, 45 plant employees, and all the related industries in the Interior and Southcentral Alaska, some with over 40 years of operational history in Alaska.

These producers continue to be dependent on Matanuska Maid. Neither the State nor the ARLF has provided funding for the Matanuska Maid operation for over a decade. In recent years the operation has generated modest profits that are generally put back into maintenance of the asset. The director is pursuing federal initiatives and USDA budgets to modernize the facilities.

The **Alaska Farmers Cooperative in Delta** has operated since the late 1970s as a place for farmers statewide to purchase fertilizer and to dry and store grain. Its services are open to the public and have oversight by a volunteer board of directors. It is an infrastructure asset that is not actively being pursued for disposal. No ARLF funding is used in the operation and maintenance of this facility.

The **Fairbanks Meat Plant** is currently leased and operated as a fish and custom wild game and livestock processing plant. The Fairbanks North Star Borough owns the land and ARLF owns the improvements. The BAC and Fairbanks North Star Borough are working in a cooperative effort to dispose of the land and improvements by 2006.

The remaining properties being held by ARLF are under long-term leases that generate income for the fund or are currently being offered for sale. For the most part, agricultural assets held for disposal by ARLF have been sold and put back into production.

Conventional financing is not generally available to agriculture in Alaska. The BAC through the ARLF continues to provide moderate interest rate loans for agricultural development. The federal loan program has been modified and fewer loans are being processed, resulting in an increased reliance on the ARLF.

## Significant Changes in Results to be Delivered in FY2006

We will maintain two Loan/Collection Officer positions to properly address all ARLF services. Additionally, these positions assist with major infrastructure asset projects such as the Mt. McKinley Meat Plant, Matanuska Maid, Fairbanks Meat Plant and Alaska Farmers Cooperative. Four positions contribute to the operation of Mt. McKinley Meat Plant

**MT. MCKINLEY MEAT PLANT**

Public hearings were held to receive public comments regarding future operations of the plant. Division staff is developing business plan options for consideration by the Board of Agriculture and Conservation.

MMM&S is an ARLF asset and the responsibility of the BAC. Correctional Industries operated the plant 1987 – 2003 through a cooperative agreement. The Division of Agriculture is now responsible for plant operations. MMM&S is now part of the ARLF operating budget. Corrections had agreed to continue to purchase boxed meat from the plant. The Division of Agriculture has instituted cost saving measures to minimize expense to the ARLF.

Long Term Plan of Action:

- Create a Coop of dairy/cattle/hog producers that would be responsible for the plant.
- Obtain Federal funds for the Coop to construct a new efficient facility.
- Close and dispose of the current facility after the Coop's new facility is in operation.

**Major Component Accomplishments in 2004**

The delinquency rate of the ARLF portfolio continues to be less than 5%. Default loans are settled and new buyers/producers found for repossessed property. Settlements of default loans were accomplished in coordination with the Attorney General's Office through a Reimbursable Services Agreement with the Department of Law.

ARLF promotes industry growth through low interest-rate loans to borrowers with viable business plans and contribute to industry stability by providing continued financing for existing agricultural enterprises with proven production and good repayment histories.

Implemented Division management of Mt. McKinley Meat Plant and are instituting cost saving plans.

**Statutory and Regulatory Authority**

AS 03.09, AS 03.10

**Contact Information**

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### Agriculture Revolving Loan Program Administration Component Financial Summary

*All dollars shown in thousands*

	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	263.9	462.7	484.2
72000 Travel	12.8	32.4	32.4
73000 Services	344.8	2,003.1	444.6
74000 Commodities	28.2	64.9	1,564.9
75000 Capital Outlay	5.2	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>654.9</b>	<b>2,563.1</b>	<b>2,526.1</b>
<b>Funding Sources:</b>			
1021 Agricultural Loan Fund	654.9	2,504.3	2,526.1
1061 Capital Improvement Project Receipts	0.0	58.8	0.0
<b>Funding Totals</b>	<b>654.9</b>	<b>2,563.1</b>	<b>2,526.1</b>

### Estimated Revenue Collections

Description	Master Revenue Account	FY2004 Actuals	FY2005 Manageme nt Plan	FY2006 Governor
<b><u>Unrestricted Revenues</u></b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b><u>Restricted Revenues</u></b>				
Capital Improvement Project Receipts	51200	0.0	58.8	0.0
<b>Restricted Total</b>		<b>0.0</b>	<b>58.8</b>	<b>0.0</b>
<b>Total Estimated Revenues</b>		<b>0.0</b>	<b>58.8</b>	<b>0.0</b>

**Summary of Component Budget Changes  
From FY2005 Management Plan to FY2006 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2005 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>2,563.1</b>	<b>2,563.1</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 05 Bargaining Unit Contract Terms: GGU	0.0	0.0	4.9	4.9
-FY06 Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	13.0	13.0
-Adjustments for Personal Services Working Reserve Rates and SBS	0.0	0.0	3.9	3.9
<b>Proposed budget decreases:</b>				
-Reduce CIP Authorization Anticipated for FY06	0.0	0.0	-58.8	-58.8
<b>FY2006 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>2,526.1</b>	<b>2,526.1</b>

**Agriculture Revolving Loan Program Administration  
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2005</u> <u>Management</u> <u>Plan</u>	<u>FY2006</u> <u>Governor</u>		
Full-time	7	7	Annual Salaries	325,902
Part-time	0	0	COLA	6,422
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	173,579
			<i>Less 1.00% Vacancy Factor</i>	(5,060)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>7</b>	<b>7</b>	<b>Total Personal Services</b>	<b>500,843</b>

**Position Classification Summary**

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant II	1	0	0	0	1
Administrative Clerk II	0	0	0	1	1
Corr Indus Prod Mgr I	0	0	0	2	2
Corr Indus Prod Mgr II	0	0	0	1	1
Loan/Collection Off I	0	0	0	2	2
<b>Totals</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>7</b>